



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.lacounty.gov>

DAVID E. JANSSEN
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

May 14, 2007

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

SACRAMENTO UPDATE - GOVERNOR'S MAY BUDGET REVISION HIGHLIGHTS

In January, the Governor proposed to eliminate the State's pattern of ongoing operating deficits without raising taxes through a mixture of proposals including prepayment of indebtedness, some program reductions, and restrained growth in expenditures, culminating in an end of budget year \$2.1 billion reserve. The Legislative Analyst's Office (LAO), however, disagreed. Based on an overview of economic assumptions and revenue projections, the LAO's February 2007 Analysis of the FY 2007-08 Budget Bill estimated that expenditures would exceed revenues by \$2.6 billion in the budget year with a year-end deficit of approximately \$726 million.

Today, Governor Schwarzenegger released the May Revision to his FY 2007-08 Proposed Budget, and fortunately, for the Administration, the May Revision reflects a slightly improving State revenue outlook due primarily to increased personal income tax and corporate tax revenues in the current year. State revenues are expected to exceed the Administration's January estimates by \$1.2 billion for the current year and \$24 million for the budget year.

Notwithstanding the increase in revenues, the May Revision reflects a \$1.4 billion operating deficit. In order to address the increased expenditure pressures facing the State, the Governor proposes a number of budget solutions to end the budget year with a \$2.2 billion reserve. In one of the Administration's conference call briefings on the

May Revision, the Governor's proposals to balance the Budget were characterized as falling into two main categories: a continuation of the reductions proposed in January and "maximizing the value of public assets."

As outlined below, the first three gap-closing measures (selling EdFund, transferring tobacco securitization funds, and use of the "spill-over" sales tax revenue on gasoline to fund K-12 Home-to-School transportation) are one-time revenues, and are not viewed by the Legislature as positive solutions to the ongoing nature of the Budget's structural deficit. The remaining gap-closing items, as well as a number of the Governor's January proposals like the CalWORKs program reductions and the revised proposal for early retirement of \$1.6 billion of the Economic Recovery Bonds, have not received strong support during Budget Subcommittee hearings.

The proposed budget solutions include:

- \$980 million from the sale of California's student loan guarantee agency-EdFund;
- \$600 million from the transfer of additional Tobacco Securitization funds to the General Fund reserve;
- \$200 million in additional spill-over revenues from the Public Transportation Account in FY 2006-07;
- \$185 million from the suspension of the State portion of the SSI/SSP COLA;
- \$ 40 million from the elimination of the Williamson Act Subvention to counties; and
- \$ 25 million from the reduction of the newly proposed California Adult Probation Accountability and Rehabilitation Act.

In total, the proposed solutions help close the budget gap by slightly over \$2.0 billion. In addition, the Administration suggests that the Legislature consider the sale of a long-term license to operate the State lottery. While the proposal was not included in its revenues for FY 2007-08, the Administration indicates that one potential use of the proceeds could be to pay off \$8.0 billion in outstanding Economic Recovery Bonds which could free up an estimated \$3.1 billion in FY 2007-08 and FY 2008-09.

IMPACT OF MAY REVISION ON THE COUNTY

As reported in our February 15, 2007 Sacramento Update, the actions included in the Governor's Proposed Budget would have resulted in a net loss of approximately \$23.7 million to the County, excluding the potential impact of the CalWORKs Reform proposals which eliminate the safety net for children. Some of the January proposals

affecting the County included: 1) a loss of \$17 million from the elimination of the Integrated Services for Homeless Adults with Serious Mental Illness (AB 2034) Program; 2) a \$7.0 million funding reduction for the Substance Abuse and Crime Prevention Act (Proposition 36); and 3) \$20 million in costs from the February 2008 Presidential primary election. The projected impact to the County was partially offset by \$5.7 million for the Health Care Workforce Development Program and an estimated \$14.6 million for the new proposed California Adult Probation Accountability and Rehabilitation Act.

As it has been the theme over the past couple of years, the Administration continues to fully fund K-12 and higher education, which leaves limited funding, if any, available to address important County programs. The May Revision includes the following issues of interest to the County:

- Retains the proposed elimination of the \$55 million AB 2034 Program;
- Retains the \$25 million reduction to the Proposition 36 Program;
- Postpones funding for counties until FY 2008-09 for the 2008 Presidential Primary Election;
- Retains \$315 million in reductions attributable to the proposed CalWORKs Reforms;
- Reduces the proposed California Adult Probation Accountability and Rehabilitation Act by \$25 million; and
- Proposes a new methodology to reimburse county administrative costs for various human services programs, starting FY 2008-09.

In our analysis of the Governor's Proposed Budget, we focused on proposals most likely to impact or to be of interest to the County and the people it serves. In order to provide a comparison of the Governor's Proposed Budget with the May Revision, the following analysis repeats the Proposed Budget recommendation and then notes the May Revision recommendations in bold print. A report on the estimated impact will be prepared in collaboration with departments and issued shortly.

General Government

Mandates. The May Revision makes no change to the Governor's Budget proposal to appropriate \$52 million to reimburse counties for mandated AB 3632 mental health services. The 2006 Budget Act provided about one-half of the estimated costs for the AB 3632 Program in the current year, and the additional \$52 million will fully fund the anticipated costs for FY 2006-07.

Mandate Reform. The May Revision makes no change to the Governor's Budget proposal to change the current mandate process. The Administration proposed a process under which the Department of Finance will work with local agencies to develop a cost-efficient method of compliance with new laws and a relatively simple way to determine the amounts to be reimbursed to local governments.

Elections. The Governor's Proposed Budget included \$10.4 million in Federal funds to continue the implementation of the Help America Vote Act (HAVA). Of this amount, \$6.5 million is to implement the federally required VoteCal system, which replaces the existing voter registration database. The remainder is for HAVA activities, including \$1.1 million in new funds to be allocated to counties on a competitive basis for assistance to individuals with disabilities; \$500,000 for voter education; \$462,000 to comply with changing standards; \$180,000 for interim technology solutions; and \$1.7 million for HAVA administration. **The May Revision proposes an increase of \$11.7 million for the Secretary of State to conduct the February 2008 Presidential Primary Election. Additionally, it indicates that consistent with AB 113 (Chapter 2, Statutes of 2007), the State will reimburse counties for their costs in the FY 2008-09 Budget.**

Property Tax Administration Grant Program (PTAP). The May Revision does not restore funding for county property tax administration. For the 10 fiscal years ending in FY 2004-05, the State appropriated roughly \$55 million annually to counties under PTAP. The County's annual share of that program was approximately \$13.5 million.

California State Library. The May Revision makes no change to the Governor's Budget proposal to shift \$52,000 from the Public Library Foundation Program in order to fund the initial stage of the Integrated Library System Replacement Project and maintains status quo funding levels for the English Acquisition and Literacy Program.

Food and Agriculture. The Governor's Proposed Budget included \$294.5 million, which reflected a decrease of \$33.2 million from the 2006 Budget Act. However, it provided \$1.5 million to leverage local and Federal funds for activities to control the spread and impact of invasive weeds and provided \$3.0 million General Fund for County Agricultural Commissioners for activities to detect and exclude new pests and diseases from California's agriculture and natural environment. **The May Revision proposes an increase of \$2.0 million as a placeholder to address the presence of the Light Brown Apple Moth (LBAM) until an assessment is completed to ascertain the areas affected by the LBAM and options to eradicate or control this pest are identified.**

Health

Health Care Workforce Development Program. The May Revision makes no change to the Governor's Budget proposal to make the final \$5.7 million installment of State funds

to the County to complete the State's training commitment for healthcare employees. This commitment was made in 2000 as part of the County's Section 1115 Medicaid waiver.

Nursing Initiative. The May Revision makes no change to the Governor's Budget proposal to provide \$757,000 in FY 2007-08 to restore nursing funding for expansion of entry-level master's nursing programs at the University of California. It also provided \$9.0 million in ongoing funding in FY 2007-08, and \$9.0 million in one-time current year funding to support additional nursing instructional capacity in community colleges.

Medi-Cal. The Governor's Proposed Budget estimated expenditures to be \$37.4 billion in FY 2007-08, which is a net increase of \$2.3 billion from the Budget Act of 2006. The increase is primarily due to caseload growth and the cost per eligible person. **The May Revision estimates expenditures to be \$37.7 billion.**

Medi-Cal Managed Care. The Governor's Proposed Budget included \$6.2 billion in FY 2007-08 for the 3.3 million enrollees. **The May Revision includes \$214.3 million to provide rate adjustments to health plans pursuant to a new rate methodology. The new rates will apply at the beginning of each plan's new rate year.**

Enrolling Eligible Children in Health Coverage Programs. The May Revision makes no change to the Governor's Budget proposal to provide \$35.9 million to implement SB 437 (Chapter 328, Statutes of 2006), which is a pilot program in two counties to streamline enrollment of children who are eligible for Medi-Cal or the Healthy Families Program.

Healthy Families Program (HFP). The Governor's Proposed Budget expected expenditures to grow from \$1.0 billion in FY 2006-07 to \$1.1 billion in FY 2007-08. The increase is due to a projected enrollment of 915,600 in FY 2007-08, up from 841,700 in FY 2006-07. **The May Revision projects an overall expenditure increase of \$1.3 million from the January amount. This is primarily due to an additional caseload of 2,600 children. Also, the State was recently notified by the Federal government that the HFP to Medi-Cal Bridge program is no longer eligible for Federal Financial Participation. The program provides children with two additional months of HFP if the household income is below HFP eligibility requirements at an annual eligibility review.**

Proposition 36. The May Revision makes no change to the Governor's Budget proposal to reduce funding by \$60 million in FY 2007-08 for Proposition 36, the Substance Abuse and Crime Prevention Act of 2000, and transfer this funding to the Substance Abuse Offender Treatment Program, requiring a ten percent County match. The total funding under this program as compared to the current year would be \$25 million less statewide and \$7.0 million less to the County.

Each Supervisor

May 14, 2007

Page 6

Human Papillomavirus Vaccinations (HPV). The May Revision makes no change to the Governor's Budget proposal to include \$11.3 million in FY 2007-08 to provide HPV vaccinations to approximately 52,000 Medi-Cal eligible women ages 19 through 26 to reduce the risk of cervical cancer.

Newborn Hearing Screening Program. The May Revision makes no change to the Governor's Budget proposal to provide \$1.5 million to expand the Newborn Hearing Screening Program to all California hospitals with licensed perinatal services.

Trauma Care. The May Revision does not address funding for trauma care services.

Governor's Health Care Proposal. The May Revision does not address the Governor's Health Care Proposal, which recommended a redirection of \$2.0 billion from counties Sources in the Administration later informed counties that the total redirection of county revenues would be \$1.0 billion instead of \$2.0 billion. The impact of this funding scheme on the County is unclear as the plan does not specify the source of the redirection other than a reference to health care safety net, realignment, and other funding sources. Notwithstanding this reduction, it is clear that counties are expected to retain the Section 17000 obligation to provide health care to those who otherwise lack access to treatment.

Public Health

Licensing and Certification. The May Revision makes no change to the Governor's Budget proposal to provide \$84.2 million, a \$19.3 million increase over the Budget Act of 2006, to ensure high quality medical care in community settings and facilities by enforcing State licensing and Federal certification requirements.

HIV/AIDS Treatment and Prevention. The Governor's Budget proposal included \$299.4 million for the AIDS Drug Assistance Program (ADAP) which provides life-saving medications to low-income persons living with HIV/AIDS. **The May Revision includes \$288.9 million to fully fund ADAP, which is 3.5 percent below the January amount. As a result of additional drug rebate revenues, the May Revision reflects one-time savings of \$9.3 million and a one-time redirection of \$7.8 million General Fund to other HIV programs. As a result of the redirection, the Therapeutic Monitoring Program, which provides more than 33,000 viral load and resistance tests to approximately 17,000 clients, will receive \$4.0 million statewide.**

Foodborne Illnesses. The May Revision makes no change to the Governor's Budget proposal to provide \$2.1 million General Fund to enhance the State's response capabilities to foodborne illnesses.

HIV Name-Based Reporting. The May Revision makes no change to the Governor's Budget proposal to include \$2.0 million to provide additional local assistance funding to

increase surveillance staff for HIV reporting activities, as required by County-sponsored SB 699 (Chapter 20, Statutes of 2006).

Hospital Infectious Disease Control Program. The May Revision makes no change to the Governor's Budget proposal to provide \$1.6 million General Fund, and \$0.4 million from the Licensing and Certification Program Fund, to implement this program, as required by County-supported SB 739 (Chapter 526, Statutes of 2006).

Mental Health

Proposition 63. The May Revision makes no change to the Governor's Budget proposal which projected an increase over previous estimates of \$312.1 million in FY 2006-07 and \$495.7 million in FY 2007-08, for a total estimate of \$1.6 billion in FY 2006-07, and \$1.8 billion in FY 2007-08. These funds are continuously appropriated to the State Department of Mental Health for county implementation. According to the Department of Mental Health, approximately \$51 million in FY 2006-07 and \$81 million in FY 2007-08 may be available for Los Angeles County.

Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program. The Governor's Proposed Budget included an increase of \$92.7 million General Fund and \$95.1 million Federal reimbursement authority above the Budget Act of 2006. The increase was attributable to additional costs and the volume of unpaid county claims. **The May Revision proposes a decrease of \$24.3 million due to a lower estimate of EPSDT claims. The May Revision also includes an increase of \$39.9 million to pay for the settlement of audits from FY 2004-05. Responding to program and fiscal concerns, including a FY 2006-07 deficiency request for \$243 million to pay prior year obligations owed to counties, the Department of Finance recommended the elimination of the method used to discount claims estimates, which resulted in under-funding and would have contributed to future deficiency requests. The May Revision also provides an increase of \$61.6 million for FY 2007-08 to minimize the future accumulation of obligations for each fiscal year going forward.**

Integrated Services for Homeless Adults with Serious Mental Illness. The May Revision makes no change to the Governor's Budget proposal to eliminate this \$54.9 million program, which provides funding to local mental health agencies to act as the single point of responsibility for comprehensive services for individuals who are homeless or at risk of homelessness or incarceration and have a serious mental illness. The Budget proposal indicated that similar services are available to individuals under Proposition 63, which the County strongly opposes because language in the initiative contains an anti-supplantation clause, and the expenditure of funds allocated to counties is decided through the local community stakeholders' process.

Social Services

Cost of Doing Business. The Governor's Proposed Budget did not provide funding to reimburse counties for cost of doing business adjustments for the administration of various human services programs. Counties are mandated to administer programs, on behalf of the State, such as Adoptions, Adult Protective Services, CalWORKs, Child Welfare Services (CWS), Food Stamps Administration, Foster Care, and In-Home Supportive Services (IHSS). Since June 2001, the State has not granted cost of doing business adjustments for most of these programs. As a result, increased costs for salaries, health benefits, workers compensation, leases, utilities, and other related costs have been shifted to counties.

The May Revision proposes a new budgeting methodology for adjusting county sharing of administrative costs. Specifically, beginning in FY 2008-09, the Administration proposes a methodology that would provide annual funding adjustments which would be equivalent to the salary and benefit increases provided to State employees, subject to appropriation. The proposed methodology will build on the CalWORKs Pay-for-Performance Program, existing State and county sharing Federal penalties, and the Child Welfare Services Outcome and Accountability System. In addition, the Administration proposes to establish a county share of Federal CWS penalties and to establish performance and accountability measures for the IHSS Program.

CalWORKs Services. The May Revision increases the allocation for CalWORKs services to \$465.6 million, \$2.4 million above the amount in the Governor's Budget proposal.

CalWORKs Improvement. The May Revision makes no change to the Governor's Budget proposal to allocate \$90 million to counties to increase work participation rates.

CalWORKs Reforms. The May Revision makes no change to Governor's Budget proposals to implement the following CalWORKs reforms, but reduces the estimated savings from \$324.4 million to \$314.5 million:

- Full family sanctions for CalWORKs families when the adult does not comply with work requirements beyond 90 days;
- Elimination of CalWORKs payments after the 60-month time limit for children when the able-bodied adult fails to meet the Federal work participation requirements;
- Limiting of child-only benefits to 60 months when the parent or caretaker is an undocumented non-citizen, a convicted drug felon or a fleeing felon; and

- Changing the CalWORKs and Food Stamp reporting requirement from quarterly to semi-annual effective January 1, 2009.

CalWORKs Pay for Performance Allocation. The May Revision makes no change to the Governor's Budget proposal to provide \$40 million for incentive payments to counties which would be allocated based on measured outcomes in work participation and employment rates achieved in FY 2006-07.

CalWORKs Child Care. **The May Revision increases funding for Stage 1 and Stage 2 Child Care to \$546.8 million and \$499.4 respectively with 5.0 percent of the total (\$52.3 million) held in reserve to reflect increased child care costs.**

CalWORKs Cost of Living Adjustment (COLA). The May Revision makes no change to the Governor's Budget proposal to suspend the July 2007 CalWORKs COLA, but revises the amount of the COLA withheld from 4.21 percent to 3.7 percent for a revised estimated savings of \$123.6 million.

Statewide Fingerprint Imaging System (SFIS). The May Revision makes no change to the Governor's Budget proposal to allocate \$7.97 million for SFIS.

Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) System. The May Revision makes no change to the Governor's Budget proposal to allocate \$2.0 million for the LEADER replacement system but it reduces the allocation for LEADER from \$12.6 million to \$12.4 million to reflect updated program cost allocations.

In-Home Supportive Services. **The May Revision increases IHSS funding to \$1.6 billion, an increase of \$85.6 million from the Governor's Budget proposal. The May Revision retains the Governor's Budget proposal to limit State participation in provider wages and benefits at a rate to be established in State statute. The May Revision also increases funding by \$8.2 million in FY 2006-07 and \$35.7 million in FY 2007-08 to fund IHSS provider wages and benefits increases approved since January 10, 2007.**

Supplemental Security Income/State Supplementary Payment (SSI/SSP) COLA. The Governor's Budget proposed \$216.7 million General Fund to provide the January 2008 COLA. **The May Revision suspends the 3.7 percent State January 2008 SSI/SSP COLA for a General Fund savings of \$184.7 million in FY 2007-08 and ongoing savings of \$369.5 million in future years.**

Child Welfare. The Governor's Budget proposed \$4.0 billion for Child Welfare Services. **The May Revision increases funding for Child Welfare Services by \$16.5 million and proposes to establish a standard monthly rate of \$2,006 for adoption and foster care.**

Child Welfare Enhancements. The May Revision makes no change to the Governor's Budget proposal to maintain the \$255 million allocated in FY 2006-07 to improve outcomes for children in foster care and to provide an additional \$5.4 million for children placed in out-of-home care by county probation departments, to identify mental health and developmental needs of children in foster care, and to monitor program performance.

Transitional Housing Program-Plus (THP-Plus). **The May Revision allocates \$15.6 million for THP-Plus, the same amount allocated in FY 2006-07.**

Child Support Services. The May Revision reduces the allocation for local agency administrative costs from \$194.9 million general fund to \$194.7 million.

Back-fill of Federal Incentive Payments. The May Revision makes no change to the Governor's Budget proposal to allocate \$23 million General Fund to maintain funding for local child support agencies due to provisions in the Federal Deficit Reduction Act which prohibit the State from claiming Federal matching funds using earned Federal incentive payments.

Justice and Public Safety

Jail Construction. The May Revision makes no specific change to the Governor's Strategic Growth Plan (SGP) which will provide \$4.4 billion in bond funding to local governments for the construction of jail facilities, and will require a 25 percent local match. Availability of these funds is subject to voter approval. **However, AB 900 (Solario) Chapter 7, Statutes of 2007, includes a two-phase plan for the construction of local county jail beds. This bill would provide \$750 million in lease revenue bonds to construct 8,000 beds in the first phase. The second phase of the plan would authorize the issuance of \$470 million in lease revenue bonds for the construction of 5,000 beds. Under AB 900, the second phase would not commence until a substantial portion of the county jail and re-entry beds were constructed. The May Revision does provide \$2.0 million General Fund for the Corrections Standards Authority to administer local jail bed construction grants authorized in AB 900, which provides for expansion of capacity in the State prison system, and the creation of re-entry facilities for the incarceration of inmates near the communities into which they will eventually be released.**

Incarceration of Non-Violent Felons. The May Revision makes no change to the Governor's Budget proposal to require that, beginning on July 1, 2008, non-serious, non-violent felons with terms of three years or less will serve their sentences in county jails. **However, the approval of AB 900 (Chapter 7, Statutes of 2007) has likely resulted in the suspension of this proposal as no funding was provided to counties for the housing of these inmates.**

Courts. The May Revision makes no change to the Governor's SGP which proposed \$2.0 billion in general obligation bonds to renovate or replace outdated, unsafe, court buildings to increase public safety. Availability of these funds is subject to voter approval.

Trial Court Security. **The May Revision includes an increase of \$36.6 million General Fund for Trial Court security needs based on the recommendations of the Court Security Working Group. This proposal reflects a court security funding plan agreed upon by the Administrative Office of the Courts and sheriffs to address court security issues.**

Mentally Ill Offender Crime Reduction Grants (MIOCR). The May Revision makes no change to the Governor's Budget proposal to provide \$45 million in FY 2007-08 for MIOCR Grants, with half for juveniles and half for adult inmates.

New Judgeships. The May Revision makes no change to the Governor's Budget proposal to provide an augmentation of \$27.8 million General Fund in FY 2007-08 and \$74.3 million General Fund in FY 2008-09 to add 100 new judgeships over a two-year period beginning in April 2008. The expenditure of these funds is restricted until legislation authorizing new judgeships is enacted.

Safe at Home Program. The May Revision makes no change to the Governor's Budget proposal to include \$292,000 to expand the Safe at Home Program which provides services to victims of domestic violence and stalking, and is now expanded to include victims of sexual assault.

Proposition 83 (Jessica's Law). The May Revision makes no change to the Governor's Budget proposal to provide \$30.4 million in FY 2006-07 and \$77.3 million in FY 2007-08 to implement Proposition 83, known as Jessica's Law, and other recently enacted measures related to managing sex offenders, including funding for GPS monitoring.

California Adult Probation Accountability and Rehabilitation Act. The Governor's Budget proposal included \$50 million in FY 2007-08 and \$100 million in FY 2008-09 for local adult probation funding targeting the at-risk 18 to 25 year old probation population, which accounts for the largest percentage of new felon admissions to the State prison system. The program was to be modeled after the Juvenile Justice Crime Prevention Act program. We anticipate that most of the funding for this program will be allocated on a population basis. The May Revision proposes reducing funding for the proposed California Adult Probation Accountability and Rehabilitation Act to \$25 million.

Shift Juvenile Justice Population to Counties. The May Revision makes no change to the Governor's Budget proposal to begin shifting non-violent juvenile offenders from State to local facilities starting July 1, 2007, and in FY 2007-08 to provide \$53 million in

block grant funding to counties to support the program and housing needs of this population. The State will also stop accepting female juvenile offenders. This will result in a savings to the State General Fund of \$32.9 million in FY 2007-08. An additional reduction of \$10 million will result from the elimination of funding for the Juvenile Justice Community Reentry Challenge Grant (However, verbal communication from the Administration suggested that the Governor's proposal now only provides that the State will no longer accept non-violent juveniles from counties.)

Juvenile Camp Funding. The May Revision makes no change to the Governor's Budget proposal to provide \$246 million in FY 2007-08 for juvenile camps.

Juvenile Justice Crime Prevention Act and Citizens' Option for Public Safety. The May Revision makes no change to the Governor's Budget proposal to provide full funding in FY 2007-08 at \$238 million.

Local Juvenile Detention Facilities. The May Revision makes no change to the Governor's Budget proposal to provide \$400 million in FY 2007-08 for construction of local juvenile detention facilities with a required 25 percent local match.

Homeland Security Grant Programs. **The May Revision proposes using \$177.6 million in Proposition 1B transportation bond funds to establish two homeland security grant programs: \$76.1 million for the Port Security Grant Program to be allocated to various ports in California to purchase security equipment, and \$101.5 million for the Transit Security Grant Program to be allocated to various mass transit systems to purchase security equipment, lighting, and other security improvements in order to prevent and respond to acts of terrorism.**

Office of Emergency Services. **The May Revision provides funding to the Office of Emergency Services including \$4.9 million in Federal funds to establish four new anti-gang grants; \$4.0 million from the Restitution Fund to augment Internet Crimes Against Children Task Forces in Sacramento, San Jose, San Diego, and Los Angeles; and \$7.0 million General Fund to be allocated on a competitive basis for local anti-gang suppression, intervention, and prevention programs.**

Regional Gang Task Forces. **The May Revision provides \$3.3 million to create three pilot task forces in Los Angeles, the Bay Area, and the Inland Empire to work with local law enforcement to disrupt gang activities in those areas.**

State Inmate Costs. **The May Revision includes \$16.9 million to fully fund local entities for costs incurred for the prosecution of State inmate crimes, housing State inmates, and various other county services related to State inmates. The Daily Jail Rate, which is the method to determine the rate of reimbursement based on the State's costs to house similar inmates, will increase for FY 2007-08**

from \$71.57 to \$77.17. The May Revision includes an additional \$1.5 million to reimburse local entities at the revised rate.

Collections of Fines and Penalties. The May Revision proposes the funding of a number of anti-gang initiatives through the increase of a State penalty assessment from 20 percent to 40 percent. This will have a negative but undetermined impact upon County collection of fines and penalties. In addition, the budget proposal would transfer the authority for the collections from the fines and penalties to the courts for those counties that currently make these collections. It is not known what impact this would have on the collection of the County share of fines and penalties or the County's maintenance of effort payments to the State in support of the trial courts.

Reimbursement for State Inmates. The May Revision includes \$6.1 million to reimburse Los Angeles County for costs associated with the delay in moving State inmates out of the Pitchess Detention Center.

Transportation

Proposition 42. The May Revision makes no change to the Governor's Budget proposal to fully fund Proposition 42 valued at \$1.475 billion for FY 2007-08, of which \$699 million is allocated to the State Transportation Improvement Programs (STIP), and approximately \$117 million will be allocated to projects in the Los Angeles region.

Pursuant to current law, cities and counties are not scheduled to receive any local streets and roads maintenance funds from Proposition 42 in both FY 2006-07 and FY 2007-08, in lieu of the cities and counties receiving monies from the State Highway Account in FY 2001-02 and FY 2002-03 for local streets and roads maintenance.

The Budget also proposes the repayment of \$83 million in Proposition 42 monies, which is the minimum amount required under Proposition 1A. This amount will be distributed in the same manner as Proposition 42 monies, which do not include any funds to local agencies. The State still owes the County approximately \$2.0 million for repayment of previously borrowed Proposition 42 funds.

Transportation Bond - Proposition 1B. The May Revision proposes to allocate an additional \$3.815 billion for various programs and projects over three years, which includes an acceleration in funding for the Corridor Mobility and Highway 99 programs consistent with the California Transportation Commission's actions to approve projects, and additional funding for State Transportation Improvement Program projects and retrofitting school buses.

The May Revision also proposes \$187 million in FY 2007-08 for the purchase of rail cars and locomotives. The Governor's Proposed Budget also anticipated a need to appropriate bond funds in FY 2006-07 for projects that were ready-to-go. Because Caltrans has been able to identify project savings to accelerate over \$331 million for State Transportation Improvement Program and State Highway Operations and Protection Program projects in FY 2006-07, more money is available for other projects to be funded from the bonds.

In addition, the May Revision increases the January Budget proposal to allocate \$2.8 billion for Proposition 1B programs in FY 2007-08, to \$4.1 billion. Of this amount, \$600 million is for the Local Streets and Roads Program under which the County would receive a direct allocation of \$58.2 million, and \$891 million will be allocated for other programs where local jurisdictions, including Los Angeles County, are eligible to receive these funds through competitive grants. However, these initial allocation amounts may be adjusted as expenditure guidelines under Proposition 1B are developed and projects are approved for funding.

Tribal Gaming Proceeds. The Governor's Proposed Budget provided for \$506 million in general fund revenue from the approval of the additional tribal gaming compacts. The gaming funds were proposed to partially offset the \$1.0 billion in outstanding transportation loans, including Proposition 42 monies due from the suspension back in FY 2003-04, which remains dependent upon the sale of tribal gaming bonds.

Several lawsuits have prevented the bonds from being sold, and the projected date that the tribal bond revenues will be available has changed numerous times. The proposed Budget now assumes spending tribal compact revenue as it is received until the date that the sale of bonds can be determined. The budget proposes to deposit \$100 million from each of FY 2006-07 and FY 2007-08 into the State Highway Account. Local jurisdictions, including Los Angeles County, are recipients of part of these funds through competitive grants.

The May Revision revises the General Fund revenue projection from the gaming compact from \$506 million to \$313.5 million in FY 2007-08.

Public Transportation Account. \$1.11 billion in transportation funds is to be transferred to finance costs that are normally financed by the General Fund. Of this amount, \$617 million would have been allocated to the STIP. The Los Angeles region would have received over \$54 million of these STIP funds. **While the Governor's Budget projected \$617 million in "spillover" sales tax revenues on gasoline, the May Revision estimates an increase in the amount of spillover funding available by \$210 million in FY 2007-08. Of this amount, the May Revision proposes to reimburse the General Fund for \$200 million in FY 2006-07 home-to-school transportation expenditures.**

Rail Operations. The May Revision makes no change to the Governor's Budget proposal to provide \$123 million to manage and coordinate intercity rail passenger services that provide commuters with a range of transportation options, help to improve the State's air quality, and reduce highway congestion and fuel consumption.

Housing

Housing Bond - Proposition 1C. The May Revision makes no change to the Governor's Budget proposal to provide \$373 million in awards to the following program areas authorized by Proposition 1C: \$88 million for affordable homeownership programs; \$140 million to provide affordable rental housing; \$40 million for farmworker housing; \$95 million for homeless permanent housing construction; and \$10 million for homeless shelter housing construction. Proposition 1C authorizes the State Department of Housing and Community Development to make these expenditures without additional legislative authorization.

In addition, the Budget proposes \$40 million for the Building Equity and Growth in Neighborhoods Program, which provides grants to cities and counties to make deferred-payment second mortgage loans to qualified buyers of new homes, and \$95 million for the Transit-Oriented Development Program to develop and construct housing projects close to transit stations. Funding for both of these programs is required to be annually appropriated by the Legislature.

Furthermore, the Budget includes \$145 million in awards for three programs that Proposition 1C requires be further specified through the adoption of additional legislation: \$100 million for Infill Incentive Grants; \$15 million for affordable housing innovation programs that demonstrate cost-saving ways to create or preserve affordable housing; and \$30 million for the Housing and Urban-Suburban and Rural Parks Program to create incentives to increase housing production by rewarding local governments with grant funds to create or improve parks. The Administration will propose budget trailer bills to implement these programs to provide incentives for the creation of more housing.

Supportive Services. The May Revision makes no change to the Governor's Budget proposal to direct \$30 million of combined Proposition 46 (Housing and Emergency Shelter Trust Fund Act) and Proposition 63 funds to provide homes with supportive services for seriously mentally ill homeless individuals and their families.

Natural Resources and Environmental Protection

Air Quality Investments – Proposition 1B. The May Revision proposes to spend \$111 million in Proposition 1B bond funds to implement the Air Resources Board's Trade Corridors Emission Reduction Incentive program. Under Proposition 1B, the Air Resources Board is authorized to spend a total of

\$1.0 billion on projects to improve the air quality in California's major trade corridors (the Los Angeles/Inland Empire Region, the Central Valley, the Bay Area, and the San Diego/Border Region).

Projects expected to be funded by the Air Resources Board include: upgrade of old, high-pollution emitting trucks used to serve ports and intermodal rail yards, and to transport goods and farm produce throughout the State; electrification of piers that serve frequent visitor ships to avoid the use of onboard diesel generators; replacement of older switch engines and other locomotives with new models meeting ultra-low emissions levels; and replacement of existing diesel engines on harbor craft with new, cleaner engines. Priority will be given to projects that provide the greatest lifetime emissions reduction in each corridor for each State dollar invested.

AB 32 – Global Warming Solutions Act. The May Revision makes no change to the Governor's Budget proposal to provide \$35.8 million from various funds to implement the Act, which requires greenhouse gas emissions to be reduced to 1990 levels by 2020 and authorizes the development of a market-based compliance program.

Specific activities include: \$3.5 million to the Air Resources Board for collecting greenhouse gas emissions data in California; \$1.8 million to develop the Emission Reduction Scoping Plan; \$12 million to develop market-based mechanisms; \$7.1 million to identify and develop emission reduction measures; \$7.4 million for scientific and economic analysis to ensure that emission reductions are achieved in a cost-effective manner; and \$4.0 million for program oversight and coordination.

Low-Emission School Buses. The May Revision makes no change to the Governor's Budget proposal to provide \$96.5 million from Proposition 1B to replace 535 pre-1987 school buses and retrofit approximately 1,500 old diesel school buses.

Hydrogen Highways. The May Revision makes no change to the Governor's Budget proposal to provide \$6.0 million to the Air Resources Board to continue development of the Hydrogen Highway, which is part of the Governor's Hydrogen Highway Blueprint Plan that includes a goal of establishing 50 to 100 hydrogen fueling stations in California. These dollars will provide matching funds for up to eight publicly accessible hydrogen fueling stations and will prioritize funding for stations that generate hydrogen from promising renewable technologies, such as biomass, solar, and wind energy.

Water Quality – Proposition 84. The May Revision makes no change to the Governor's Budget proposal to provide a total of \$1.1 billion for Proposition 84, including \$111.4 million for the State Water Resources Control Board for water quality programs, \$75.7 million to provide low interest loans or grants for wastewater treatment facilities and pollution control projects; \$6.2 million for the Agricultural Water Quality Grant Program; \$14.6 million for the Urban Storm Water Grant Program; \$8.8 million for the

Each Supervisor
May 14, 2007
Page 17

Clean Beaches Grant Programs; and \$6.1 million for basin and land use planning activities.

Brownfields. The May Revision makes no change to the Governor's Budget proposal to provide \$3.1 million to accelerate the cleanup of approximately 750 additional brownfield sites.

Ocean Protection. The May Revision makes no change to the Governor's Budget proposal to allocate \$28 million from Proposition 84 in FY 2007-08 to create marine protected areas, ensure sustainable fisheries, and regulate marine industries.

Bioenergy. The May Revision makes no change to the Governor's Budget proposal to provide \$5.1 million, principally from Proposition 84, to advance the Governor's bioenergy initiative, which is designed to increase the use and availability of renewable energy, reduce reliance on fossil fuels, mitigate the risk of catastrophic wildfire, and address some of the State's critical waste disposal and environmental problems.

As indicated previously, a report on the estimated impact will be prepared in collaboration with departments and issued shortly.

DEJ:GK
MAL:IGR:acn

c: All Department Heads